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C O N F I D E N T I A L SECTION 01 OF 03 BEIRUT 000639

SIPDIS

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TAGS: [EINV](#) [PGOV](#) [PREL](#) [PTER](#) [LE](#)
SUBJECT: LEBANON: ECONOMY TEETERING BUT NOT DOWN YET

Classified By: CDA Michele J. Sison for reasons 1.4
(b) and (d)

SUMMARY

1. (C) The economy is moving slowly, with banks officially reporting no problems, but branches closed in some places and cash hard to find. GOL staff cannot get to work, but like stock exchange employees, they are trying to find ways to work around the closures. Port activity is suspended, and the airport and road closures are limiting incoming shipments and outgoing mail. There is a rush to stockpile food and other necessities, but so far supplies are adequate. Business leaders are worried about losing the profitable summer season for the third year in a row. The General Confederation of Labor, which called for the strike initially, are accused of planning the operation with Hizballah. End summary.

BANKS: SO FAR, SO GOOD

2. (C) So far Lebanese commercial banks are operational, although business activity is weak and some branches are closed. As with most commercial activities, those in Beirut are most affected, with other areas of the country approaching normal operations. Central Bank of Lebanon (CBL) Director of Financial Operations Youssef el Khalil told us that the CBL and all branches are open and activity is normal. The CBL keeps large Lebanese Lira cash deposits in its branches throughout Lebanon, so cash availability for bank branches, businesses and individuals should not be an issue. He does not anticipate a heavy demand for cash, as was the case during the July 2006 war, because unlike now, people at that time were leaving the country. However, Embassy cashier told us that on 05/09 he had to go to several banks to get sufficient U.S. dollars for Embassy needs, and bills in small denominations were particularly difficult to find.

3. (C) President of the Association of Banks and Chairman of Byblos Bank Dr. Francois Bassil went home today for lunch and a "siesta" since there is "no work today," his assistant told us. Byblos is experiencing no cash liquidity issues, either in branches or at ATMs. Bank branches in "sensitive areas" are closed, which include the Biqa' and west Beirut. The majority of the major Lebanese commercial banks have head offices located in the area affected by the demonstrations, but as long as the situation does not worsen or spread to other areas they feel able to cope.

4. (SBU) The office of the Association of Banks, located downtown between Gemayzieh and Saifi, told us that staff were

leaving at 15:30 on 05/08, not because of the speech of Hizballah SYG Nasrallah, but because the LAF were deploying tanks in the streets in front of their offices. The assistant we spoke to had heard rumors that armed people (Note: The exact Arabic word was "shebab," meaning young men. End note) were taking to the streets.

GOL FINANCE AND ECONOMY
AND TRADE OFFICES

15. (C) The secretary of Finance Minister Jihad Azour reports that ministry employees were at work this morning, but left early. Their offices are located in the central Riad el Solh area. On the other hand, Ministry of Economy and Trade (MOET) offices, located in the Lazar were empty, since staff did not report either 05/07 or 05/08. Marwan Mikhael, advisor to Minister Haddad, told us that the owners of the building closed the entrances of the building housing the MOET, Ministry of Environment and the Beirut Stock Exchange. Hizballah is also preventing staff from reaching their offices. One staffer told us that he had to argue persuasively with Hizballah to be allowed to reach his office, where he had hoped to break into the computer room and make back up disks of critical information, but although he was allowed to enter briefly, he was unable to complete the task.

STOCK EXCHANGE: WORKING
TO KEEP OPERATING

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16. (C) The Chairman of the Beirut Stock Exchange (BSE) told us that his staff had slept in their offices the night of 05/07, and were working on 05/08 to restructure their systems so that the Exchange equipment could be operated remotely. The BSE has remote trading, but until now has been unable to activate the system from remote locations.

AVIATION: CAUGHT IN THE CROSSFIRE

13. (C) The closure of the Beirut International Airport (BIA) is having an obviously negative effect on the finances of MEA, but in addition, puts the nine MEA planes at risk every time they land at BIA. A secondary casualty of the airport closure is air freight/air courier services. Courier companies like DHL tell us that they are sending their mail overland to Syria and then out by plane. Anecdotally we are hearing about excessive charges for those, like the President of the BSE, who manage to come in on a plane, where they are required to pay for at least two different taxis to take them to and from the barriers, where they have to pay someone to carry the bags across the dirt berm.

BUSINESS: SUPPLIES ADEQUATE BUT
STOCKPILING IS EMPTYING STORES

14. (C) Demand for bread, milk and daily necessities is increasing, and Lebanese are rushing the grocery stores for supplies. So far stores are able to keep the shelves stocked, however the road blocks will limit the ability of suppliers to deliver to all stores. Trucks coming from the Syrian border, which includes food supplies from Syria, Jordan and Egypt, will have difficulties, since the road is currently blocked. A major freight forwarder and heavy user of that road Abdel Wadoud Nsouli says that trucks can still get through with "wasta," (Note: Wasta is the Arabic euphemism for bribes. End note.) but traffic is generally being diverted to the northern borders.

INDUSTRIAL LEADERS:
WORRIES OVER SUMMER SEASON

15. (C) Nsouli added that there is little demand for anything but food, and he believes there are sufficient stocks. He predicts a long-term crisis. Other leaders of the business sector and heads of chambers of commerce condemned the labor strike and the consequences. They are already fearful of losing the third summer season in a row, which is historically the biggest contributor, through tourism, to the Lebanese economy. Until this crisis occurred all sources were predicting an exceptional season, which would save many businesses. Head of the Beirut Traders Association told us that stores located near the clashes are all closed, as are some stores whose owners are scared to leave their homes, but otherwise stores, especially those in Christian areas, are open as usual.

PORT: OPERATIONS SUSPENDED

16. (C) The Port of Beirut was operating normally, as confirmed by Hassan Kraytem, the chairman, until the morning of 05/09. He said that ships were not hesitant to come in, and insurance companies were not yet banning ships from entering the port. However, on 05/09 we received reports that Hizballah has blocked the land entrances to the Port. Sources connected to the port told us that Hizballah has agreed to not enter the port, if the operations are suspended. Since workers are not showing up, and there are no ships arriving, Kraytem has suspended operations.

UNIONS: STRIKE PLANNED BY HIZBALLAH

17. (C) Maroun Khawli of the pro-March 14 National Salvation Committee of the General Labor Confederation GLC) told us that he believes the entire exercise of calling a strike for 05/07 was planned to create the opportunity for a political clash. In addition, a long-time assistant at the GLC told us that during a closed-door session on 05/03, prior to the cabinet meeting where the decision was made to raise the minimum wage, head of the GLC and Amal member Ghassan Ghosn said, "I want to close the airport." She believes that the labor strike was planned to give Hizballah cover for its

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attack against the GOL. She also said that Ghosn's statement announcing the cancellation of the strike was prepared by Hizballah.

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